

# **AGENDA WICHITA/SEDGWICK COUNTY**

## **BLUEPRINT FOR BUILDING NEW FOUNDATIONS**

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### **Appendix B**

#### **INDUSTRY ANALYSIS AND OPPORTUNITIES FOR GROWTH**

This appendix serves as an overview of the key economic sectors in the Wichita area economy. It describes trends and conditions and discusses opportunities for growth. These opportunities should be priority targets of the WI/SE Partnership direct marketing program.

##### Aircraft Manufacturing: Stable But Concentrated

This Category comprises the three components of the aircraft industry located in Wichita: general aviation, military aircraft and commercial aircraft. Because most of the production of military and commercial aircraft is centralized in one firm, Boeing, these two components of the industry will be discussed as one.

As of December 1984, the last year for which industry-specific data are available, aircraft employment in the Wichita MSA was 33,000\*. This comprised 73.2% of the manufacturing employment in the MSA, and 16.3% of total employment. This level was up considerably from levels at about 23,000 in 1982 and 1983. Although information for specific firms for dates later than 1984 is not available, it is likely that much of the labor released by the general aviation industry since the late 1970s has been absorbed by Boeing.

\*The exact size of this sector is difficult to measure. After December of 1984, the Kansas Department of Human Resources stopped reporting aircraft employment as a separate component of total durable manufacturing employment. In addition, even if this data were still available, some manufacturing firms in other industries, such as metalworking, specialize in supplying inputs to the aircraft industry; their employment cannot be distinguished from that of other firms in the industry. Therefore, the employment levels noted above will tend to overestimate total employment in the sector.

General Aviation – The general aviation industry has seen major declines in sales and employment over the last 8 years for a number of reasons, including the 1981-82 recession, increases in liability insurance premiums, and the strength of the used-aircraft market. Between 1978 and 1983, domestic general aviation sales declined from a peak of 17,811 to a low of 1,560 aircraft in 1985.

In an attempt to recapture declining sales, many of the general aviation firms are developing new market approaches and new products (such as the Beech Starship I). Many previously independent general aviation firms have merged into larger corporations or have entered into joint ventures to gain access to the large amounts of capital required to develop new aircraft.

Although general economic conditions have improved since 1982, the effects of this recovery have just begun to help the general aviation industry. At the same time, other factors are affecting the industry. Foreign competitors (often subsidized by their governments and/or protected from foreign competition in their own markets) have developed aircraft that are highly competitive and have begun to make inroads into both the U.S. and foreign markets that Wichita firms used to dominate. It may be that previous levels of sales and production in Wichita will never again be reached, and that a “healthy” general aviation industry may consist of a few smaller firms serving mostly domestic markets.

Military and Commercial Aircraft – Local production in these components of the aircraft industry are centered around activities at Boeing Military Airplane Company. Boeing’s local production is split almost equally between commercial and defense production. On the commercial side, 75% of Boeing’s 737 and major components of its 747, 757, and 767 are built in Wichita. On the defense side, Boeing has an array of contracts to retrofit existing military aircraft, as well as other advanced development contracts.

Because such a large part of Boeing’s projects are military-oriented, uncertainty surrounding defense spending in the future raises the possibility of downturns over the longer term. It is fortunate that Boeing’s military work is diversified because any cutback in a single program will be easier to absorb.

Current projections call for the commercial aircraft industry to remain strong through the year 2000. Boeing’s 737 is expected to continue as the airplane most demanded by commercial carriers around the world. Because many major carriers need to replace their fleets, markets should expand for other models. However, the future of the commercial aircraft industry may not live up to current projections because this industry’s health depends on the strength of the airline industry, which is highly sensitive to cyclical economic changes.

Among the many economic advantages the aircraft industry brings to Wichita is \$300 million in research and development annually. The resulting R&D base is a source of new technological knowledge that offers opportunities for new products and manufacturing process in fields other than aviation. The application, processing, and other aspects of composite materials developed for aircraft use, for example, could have many uses in other industries.

### Other Manufacturing: Underdeveloped Locally But Declining Nationwide

This economic sector consists of Wichita's manufacturing activity not directly related to aircraft manufacturing or manufacturing in the extractive industries (agriculture and energy). In 1984, total employment in this sector was approximately 23,300, or 11.37% of total employment in Wichita. Overall, employment in this sector has increased since 1970 although the 1984 employment is unchanged from 1980 levels. Within this broad sector, major activities include food and kindred products (2,286 jobs in 1984); printing and publishing (2,323 jobs), fabricated metal (1,041 jobs), non-electrical machinery (6,235 jobs), and electronic computing equipment (which employed between 1,000 and 2,499 workers in 1984).

Wichita has a much smaller percentage of non-aircraft manufacturing locally (11.3% of total employment) than the national average (19.89% of total employment). This difference suggests that this sector may be significantly underdeveloped in Wichita.

One means of expanding this sector is to focus on industries that can serve both the aircraft and other manufacturing industries. Examples of such industries include composite materials scientific instruments, and communications equipment. The composites industry is likely to grow because automobile makers, for example, are beginning to use composite materials in the construction of car bodies; deregulation has expanded the market for communications equipment. Any future industrial attraction strategies implemented in Wichita should target industries like the above that complement the area's existing competitive advantage (e.g., its technically skilled work force).

It is important to point out, however, that U.S. manufacturing overall is declining in employment. Although Wichita has important attributes that make it an attractive location for manufacturing industries, (e.g., relatively low-cost industrial land), it is unlikely that the local economy will soon see significant new manufacturing businesses.

### Agriculture: Innovation is Key to Growth

This sector includes farming and related industries, such as the manufacturing of farm machinery, grain storage, and meat products. It is difficult to determine the level of employment in this sector, because most of the agriculture-related industries are only reported at the local level as part of the larger industrial classification for manufacturing. However, employment figures are available strictly for farm employment; data from the Kansas Department of Human Resources shows that in the Wichita area MSA, farm employment averaged approximately 2,750 though the first nine months of 1986. This figure is similar to the annual average of 2,700 in 1985, and down only slightly from that of 3,000 in 1981. Given the recent national and regional trends in agriculture employment, it is likely that employment in the related industries has also declined in recent years.

Wichita's agriculture and related industries have been hit hard in the past few years (as is the case throughout Kansas and most of the United States). Factors that have led to declines in these industries include the shifting value of the dollar, increasing foreign competition, and the loss of U.S. leadership in key technologies, which have spread to competitor nations. In the face of these changes, Wichita has fared somewhat better than the rest of the state because its economy is far less concentrated in agriculture.

The U.S. agriculture industry and related industries will probably see their employment, output, and contribution to GNP continue to shrink for the foreseeable future. Success in these industries will depend on the ability of individual firms to innovate and supply specialized products to fill particular market niches. In this context, local firms in these industries must understand and meet the requirements of today's markets, focusing more on specialized products and marketing strategies aimed at filling special market niches than on quantity. Firms supporting activities in this sector will likewise have to find some means of offering more value-added services (perhaps through technology) than their competitors.

Wichita already has a prime example of a firm that has learned to adapt to the new environment faced by firms in these industries. Excel Corporation has become strongly market-driven, developing product brands and producing new products that meet the changing demands of today's consumer. Rather than focusing only on commodity-type production, Excel distinguishes its products from those of other meat cutters and packagers on the basis of unique features. This is a strategy that commodity-producing industries should adopt.

Even if Wichita is successful in increasing the transition to more value-added segments in its commodity-based industries, macro forces are holding the sector back; thus, it is unlikely that old levels of employment will be reached in the future. Yet, with the kinds of new approaches and innovation exhibited by Excel, Wichita can expect a smaller, yet stronger agriculture and related sector.

## Oil and Gas

Wichita's oil, gas, and related industries have also seen major declines in employment and output, due to a combination of factors including the decline in world energy prices and a loss of technological superiority. Within the Wichita area MSA, mining employment has declined from a high of 3,500 in 1981 and 1982 to an average level of approximately 2,400 through the first nine months of 1986. In addition to the direct losses in mining employment it is likely that the area, which serves as a regional center for the industry, has lost employment in related support industries.

While the recent drops in the world price of oil have been a primary force in the recent decline in these industries, there are strong indications that a reversal of this trend (which may have already begun) will not be enough to support complete recovery. The high costs of re-opening unused capacity, and time and costs involved in new exploration will result in a fairly long lag time before the industry can regain its previous capacity. In addition, as technology in the industry has become more standardized, nations with more accessible and less costly reserves

have gained a comparative advantage over U.S. producers. Therefore, it is likely that U.S. firms will not have an easy time regaining their previous market share. In many cases, the survival of U.S. firms will depend on their ability to innovate and develop new, highly specialized products that meet a specific market niche, rather than to compete against other nations to produce commodity products.

While innovation will be a key in the future of the U.S. industry, national policies and economic performance, both in the U.S. and abroad, will also be a critical factor. It is likely that many nations will continue to support domestic production. For developing nations, this capacity is seen as critical to industrialization, in the U.S., it is seen by some as critical to national security. Decisions on both sides regarding the extent to which the industry will support domestic production will therefore have a major impact on worldwide demand and supply.

For Wichita, these national and international trends in the oil and gas industries present a scenario similar to that facing the area's agriculture and related industries. It is likely that employment in both oil, gas and the related industries will continue to stabilize, and perhaps decline slightly, in the near future. However, some opportunities will exist for those firms which can innovate and develop products that meet a defined market niche.

#### Health Care: Fast-Growing But Volatile

The health care industry is a rapidly growing and fast-changing field that presents important growth opportunities for the Wichita area. This sector is defined to include hospitals and health maintenance organizations; practicing physicians, dentists, and nurses; outpatient care facilities; medical laboratories; and other types of specialized care facilities. In 1984, Wichita's employment in this sector totaled 16,700, by far the largest component being the area's four major hospitals, which employed approximately 9,000, 55% of total sector employment.

Health care is a dynamic and volatile industry today. Although its contribution to the U.S. gross national product grows each year, increased competition, the rising cost of care, and tight control on Medicare funds are causing structural changes within the industry. New types of health care providers are emerging, such as health maintenance organizations and special treatment centers for diet control and alcohol and substance abuse. In the near future, adjustment to this new environment is likely to cause uneven growth within the industry. A downward trend has already begun in Wichita, with employment declining since 1981.

Wichita has several competitive advantages that could help it become a major regional health center. Four major hospitals and the 600 doctors', dentists', and other practitioners' offices and 34 nursing and personal care facilities serve a broad market in the region. Additionally, the research facilities at the KU Medical School-Wichita, WSU, and many smaller facilities provide a research base that can be capitalized on.

#### Export Service Industries: Services as Export Products

This sector includes those industries that are traditionally classified as service or “support” industries, but because of Wichita’s central role in the region, often export those services to individuals and business located outside of the Wichita area. This means that they bring dollars from outside Wichita into the local economy. Industries in this category include business services; retail trade; wholesale trade; transportation; communications; restaurants and hotels; and finance, insurance, and real estate.

Some economic development practitioners ignore the service industries in the belief that these industries, in general, just “spin” money already in the economy and that jobs in these industries are low-paying and low-skilled. Although this is true of some activity in this sector, it is important to understand that service and support industries can be export industries, especially in a regional center like Wichita, and that many of these industries employ highly skilled workers, and that development strategies for these industries should recognize the important role that they play in bringing income into the local economy.

#### Local Service/Support: Job Producer

This seventh sector, the largest in the local economy, includes firms that support Wichita’s export industries, as well as the consumer needs of residents. It includes the same traditional industries as in the export services sector, the distinction being that these activities serve the local rather than the surrounding regional population. In addition, this sector includes government, which, except in the case of national and state offices, serves the local population. Overall, employment in the service and support sectors constitutes the majority of Wichita’s total employment. In September 1986, the 140,200 jobs in this sector represented 66.7% of overall employment.

In addition to being the largest source of employment, this sector is important because of its recent growth. Nationally, many of the industries included in this category have been among the fastest-growing industries over the past decade and a half. Service industries in the United States grew an average of 5% from 1970 to 1985, dropping to 3.7% in 1986.

In addition to the natural growth expected within this sector, there may be opportunities to expand it by substituting local services for those now imported from outside the area. For example, although Wichita’s retail trade has grown steadily since 1977, effective buying income in Wichita seems to be outpacing growth in retail sales. This trend may indicate that residents are saving more; it may also indicate that some types of retail establishments are underdeveloped, and that residents are going outside the community to shop for some specific, probably specialized goods and services not found in Wichita.

Overall, the local service/support sector will continue to be very important but will remain dependent on the overall health of the Wichita economy.